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SUBJECT: PETROCARIBE UPDATE #24: GRENADA'S PLAN FOR VENEZUELAN OIL

REF: BRIDGETOWN 1127

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¶1. (SBU) Summary: The Government of Grenada (GOG) hopes to use the PetroCaribe oil accord to import diesel supplied by PDVSA, Venezuela's state-owned oil company, as a means to gain leverage over Grenada's privately owned electric company and convince it to lower rates charged to consumers. At present, the GOG plans to receive only diesel and aircraft fuel directly from PDVSA and does not foresee involvement in a proposed regional storage facility that would serve the Eastern Caribbean. Grenada's strategy for utilizing Venezuelan oil made available through PetroCaribe's concessionary financing scheme resembles that of other Eastern Caribbean countries, as it does not appear to provide a means to lower fuel prices without incurring additional debt. End summary

Government Wants to Influence Energy Sector

¶2. (SBU) The Government of Grenada hopes to use diesel and aircraft fuel supplied through the PetroCaribe oil accord to gain influence in the energy sector of Grenada's economy. The petroleum products will be imported by PetroCaribe Grenada Ltd., a parastatal company established by the GOG (reftel), which will sell aircraft fuel to the Government-run airport authority and diesel to GRENLEC, Grenada's privately owned electric company. This plan is intended to allow the GOG to re-enter the energy sector, in which it has not been involved since GRENLEC was privatized in 1994, according to John Auguste, the GOG's senior civil servant for energy issues.

Lower Electricity Prices Should Follow

¶3. (SBU) With the Government, in effect, supplying diesel to GRENLEC, the hope is that the private company can be convinced to lower electricity rates charged to consumers, Auguste explained to Poloff. Exactly how this would be accomplished without the GOG selling the diesel at a price lower than GRENLEC currently pays to Texaco, and thus incurring debt, remains unclear. Auguste spoke vaguely of the GOG more cost effectively maintaining the facilities used to offload from ships and store diesel as a means to offer the fuel at a lower cost. The GOG, as the supplier of diesel to the electric company, would also have combined political

and commercial leverage with which to convince GRENLEC to lower prices. In either case, the GOG needs to open a dialogue with GRENLEC, which has not yet begun according to the company's American owner (reftel).

Government Lost Control of Electricity Rates

14. (SBU) Part of the rationale for attempting to gain some control of the energy sector comes from the GOG's disappointment over the manner in which it privatized GRENLEC in 1994, according to Auguste, who has been working on energy issues in Grenada for twenty years. The legislation that authorized the sale of the company failed to give the GOG the means to regulate rates charged by the electricity monopoly, a common practice of municipal governments in the U.S. Making matters worse is the fact that Minister of Energy Gregory Bowen was the longtime manager of Government-owned GRENLEC. Whereas Bowen used to have control over energy rates in his former position, the Minister now &kicks himself8 over his current lack of influence, said Auguste.

No Benefit from Regional Storage Facility

15. (SBU) Grenada does not currently intend to utilize a proposed regional storage facility for Venezuelan oil. The facility, which would use existing tanks in Antigua to store oil for the Eastern Caribbean nations that are part of PetroCaribe, does not offer any economic benefit to Grenada, argued Auguste. As the Eastern Caribbean country closest to Venezuela, Grenada believes it could more cheaply import oil directly without having to go through Antigua at the extreme northern end of the region. The GOG energy official, who participated in several regional meetings regarding

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PetroCaribe, said that it was a number of such objections from Grenada and other countries that have indefinitely delayed the proposed start-up of the Antigua storage facility.

Comment

16. (SBU) Grenada's plan for utilizing PetroCaribe oil appears to be as poorly thought through as those in other Eastern Caribbean countries. The GOG hopes that by supplying diesel to the nation's sole electric utility it can lower rates, but does not yet have a clear idea how to do so without offering the fuel at a low price and incurring debt. It could, of course, pressure GRENLEC into lowering rates, but such heavy-handed tactics would scare off future private investment. The fact that Grenada sees no benefit from a regional approach to importing and distributing Venezuelan oil suggests, as Post has reported previously, that each of the Eastern Caribbean countries is going it alone with regard to PetroCaribe, thereby missing what little opportunity they may have had to maximize its benefits to the Organization of Eastern Caribbean States (OECS) countries as a group.
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